By Peter Hirschfeld, Rutland Herald

State officials have yet to resolve a looming deficit in the unemployment trust fund that House Speaker Shap Smith referred to Monday as "one of the most difficult" financial issues facing Vermont.

But federal legislation being proposed by Rep. Peter Welch could relieve some of the sting by waiving interest payments on the federal money Vermont will have to borrow to pay the approximately 20,000 out-of-work Vermonters now receiving weekly unemployment benefits.

"This common-sense legislation provides critical federal support to Vermont and other states struggling to assist unemployed workers," Welch said Monday.

Vermont's unemployment trust fund will likely run dry before the end of this month, according to Commissioner of Labor Pat Moulton Powden. The zero balance will force the state to begin borrowing millions from the federal government to meet its unemployment obligations.

The interest that accrues on those loans could run as high as $20 million over a two-year borrowing period in calendar years 2011 and 2012, according to projections by the Douglas administration. The federal government is already waiving interest on unemployment loans until Dec. 31, 2010. Welch's legislation would extend that deadline by two years.

"By extending the delay in interest accrual, Vermont businesses, workers and taxpayers will be spared an additional burden during tough economic times," Welch said.

Since interest on federal unemployment loans must be paid from Vermont's general fund, the proposed legislation could ultimately save lawmakers from cutting programs and social services supported by that fund.

State officials gathered at a Montpelier press conference Monday said the beleaguered general fund, facing a $150 million shortfall this year alone, can ill-afford new burdens.

"Having this two-year interest waiver really makes Speaker Smith's and other legislators jobs easier as they wrestle with budgets for 2012 and 2013, which is when these interest payments would hit the ground."

Even if the proposed legislation wins congressional approval, however, the bill won't solve Vermont's unemployment dilemma.

The Douglas administration projects that the unemployment trust fund, without a substantial overhaul, could run $300 million into the red in coming years. Administration officials have proposed a reform package that relies on a combination of tax increases on businesses and cuts to unemployment benefits to restore the fund to solvency.

But the issue could be poised for a partisan showdown as top Democrats signal their aversion to any decrease in weekly benefits.

"I think it is unlikely we would cut the wage threshold," said Smith, who noted that the Legislature last year froze maximum weekly benefits at $425.

The Douglas plan would reduce that amount to $400 and increase taxes on employers to restore the fund to solvency. Administration officials say the proposal would distribute the pain equitably between employers and beneficiaries: businesses would see their unemployment tax burdens rise by some $84 million over the next four years, while payments to recipients would drop by more than $90 million over the same time period.

Even with those measures, Moulton Powden said Monday, the state might have to borrow up to $170 million in federal money as the fund recovers.

Smith said he won't begin talking about specific legislative proposals until a committee appointed to review the issue releases its report later this month.

Sen. Vince Illuzzi, an Essex County Republican who chairs the senate committee that will oversee the unemployment debate, said the issue is a difficult one. Solving the unemployment problem, he said, will require significant concessions from two groups who aren't in a financial position to absorb the blows – struggling businesses and unemployed Vermonters.

"Anything we do is going to hurt somebody financially," Illuzzi said. "I've always maintained you don't kick somebody while they're down, and that's something in the back of my mind. But not only are unemployed workers down, so are some of their former employers."

Important as the federal legislation would be, Illuzzi said, it doesn't change the urgency with which lawmakers must seek out a solution.

"Certainly waiving the interest penalty for two years gives us some breathing room, but we can't use it as an excuse for not taking action," he said. "There needs to be an adjustment to both employer contributions and benefits, and sooner rather than later. Otherwise we're just kicking the can down the road."